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TAGS: ENRG EPET IR IZ KZ RS TU
SUBJECT: SCENESETTER FOR THE VISIT OF SECRETARY OF ENERGY
SAMUEL BODMAN TO TURKEY, NOVEMBER 15-18, 2007

Classified By: CDA Nancy McEldowney for reasons 1.4 (b) and (d)

¶1. (SBU) Summary. Your first official visit to Turkey will be an opportunity to reaffirm U.S.) Turkish shared strategic vision on the development of Caspian oil and gas resources and diversification of transit routes to lessen Europe's dependence on Russia. You will need to encourage Turkey to continue to look to the Caspian or other resource rich neighbors like Iraq, rather than Iran, to meet its growing energy demand. You will need to remind Turkey of U.S. policy and law which imposes sanctions on companies that invest in Iran. In addition to meeting with Turkish leadership, you will make two public speeches; one at the Turkish American Business Council (TAIK) on November 16 and one at the Turkey-Greece Interconnector (TGI) ceremony on November 18. This ceremony marks an important milestone in our vision to bring non-Russian sources of gas to Europe. It is the only non-Russian route for Caspian gas that is in operation.

¶2. (C) Summary continued: Your visit follows President Bush's successful November 5 meeting with PM Erdogan in Washington and Secretary Rice's constructive Ankara meetings with Erdogan, President Gul and FM Babacan on November 2. The President and Secretary Rice were able to pull Turkish-American relations from the brink by pledging increased, real-time intelligence sharing to help eradicate the terrorist PKK. Media and the public remain wary that Turkey will be put off once again with words instead of results. The ball is now in the GOT's court, according to many Turks who believe Erdogan must act decisively. This shift, along with the suspension of action on Congress's Armenian genocide resolution (H.R. 106), opens a window for discussions on other key bilateral issues such as energy. Your visit is an ideal opportunity to emphasize the many other vital interests Turkey and America have in common. End summary.

Turkish Nuclear Energy Ambitions

¶3. (SBU) On November 7, the Turkish Parliament began debating the Nuclear Energy law. This law lays the foundation for the commercial development of nuclear power in Turkey. While environmental groups oppose the law, the GOT is firmly behind the law and we expect its passage within 90 days. Tenders are likely to be issued shortly thereafter (approximately March 2008).

¶4. (SBU) Turks would very much welcome good news on the

status of the U.S. ratification of the Peaceful Uses of Nuclear Energy (PUNE) agreement during your visit. Turkish officials have in the past indicated a preference for U.S. nuclear energy technology. However, without U.S. ratification of the PUNE (also known as the 123 Agreement), U.S. companies will be frozen out of these tenders and Turkey likely will turn to Russia or France to supply nuclear equipment and fuel. Strategically, a deal with Russia would increase Turkey's energy dependence on Russia at the same time that Turkey is trying to reduce its dependence on Russian gas.

Turkey and U.S. Caspian Strategy

¶5. (U) Turkey plays a major role in our Caspian strategy because it is the non-Russian, physical link between the oil and gas resources of Central Asia and the growing demand for those products in Europe. U.S. policy envisions Turkey as a strategic energy bridge between East and West and seeks to ensure that Turkey is a reliable and transparent transit country. Currently, more than three million bbl of Caspian oil pass every day through the Bosphorus Straits, and nearly one million bbl/d of oil pass through the Baku-Tbilisi-Ceyhan (BTC) pipeline, the first pipeline for Caspian oil that does not cross Russian soil. Turkey aspires to increase its role as a main export transit country and further link its future to Europe's by piping natural gas to meet Europe's growing needs.

¶6. (SBU) In addition to its role as a transit country, Turkey aspires to be a regional energy player. With the planned construction of the Samsun-Ceyhan oil pipeline, new refining capacity at Ceyhan, and the possibility of a liquefied natural gas terminal at the same location, Turkey

envisions itself as a regional energy hub and a natural marketplace between Middle East, North African, and Caspian suppliers and customers in Europe.

¶7. (SBU) While the U.S. has primarily viewed Turkey as a transit country for Caspian energy, the Turks also look at Caspian gas as a potential solution to their domestic energy needs. 55% of Turkey's natural gas consumption now is for electricity. That percentage will rise as natural gas consumption doubles by 2015. Turkey is unsure from where this additional gas will come. Consequently, Turkey is pursuing an &all fronts8 strategy, increasing energy cooperation with Iraq, Iran, Azerbaijan and Turkmenistan.

¶8. (SBU) Turkey is aware of U.S. policy on Iran but argues that unless the U.S. can show a reliable, guaranteed energy supply, Turkey cannot ignore Iran's huge reserves. Turkey also believes it has a competitive commercial advantage in Iran because Iranian gas cannot reach European markets by pipeline without transiting Iran. Also, Turkey is being asked by the European Union to allow non-Russian gas, including Iranian gas, to transit Turkey, and Turkey views this as an aid to its bid to join the EU. Turkey's Iran experts also recognize that Iran has been an unreliable supplier and any new gas negotiations will take a long time and have extremely low expectations they will bear fruit. Watching what the Europeans are doing, Turkey doesn't want to be left behind.

¶9. (U) Understanding that Turkey's priority concerning natural gas is its domestic need for electricity opens up several areas for US-Turkish cooperation to aid our Caspian strategy, including alternative energy sources (nuclear, clean coal, wind and other renewables) and electricity imports in addition to or in place of natural gas. Many of these open up commercial opportunities for US companies.

Turkey and Iraq

¶10. (C) Despite ongoing tensions, Turkey and Iraq are both benefiting from Ankara's consistent push to support the Iraqi central government. The GOT has continued to try to help PM Maliki consolidate central government control through regular

Sunni outreach (including inviting VP al-Hashimi twice in recent months), as well as the August Maliki visit to Ankara.

The Turks maintain a consulate in Mosul and are opening another in Basra. And at the high water mark in bilateral tensions, FM Babacan made the first high-level GOT visit since 2003 to Baghdad October 23, taking Turkey's message directly to the full array of Iraqi leadership. USG pressure on Iraqi Kurdish leaders to tighten the noose on PKK operations in northern Iraq and other measures agreed to at the November 3 Iraq Neighbors Ministerial in Istanbul have also improved relations. The lull in tensions may be short-lived if the PKK launches more violent attacks or an impatient and frustrated Turkish public fails to see the concrete action against the PKK it demands.

¶11. (C) On October 31, the Turkish Council of Ministers approved -- but has not yet disclosed or implemented -- economic sanctions against northern Iraq and the PKK. Among the possible sanctions is a cutoff of electricity exports (Turkey supplies about 9% of Northern Iraq's electricity), overflight denials, trade restrictions and closure of Habur Gate border crossing. None of these measures are cost-free and Turkey appears to be in no hurry to implement them. There also have been reports that Turkey has been seizing Iraqi oil transiting the Kirkuk-Ceyhan pipeline, but this appears to be a debt collection issue, not part of any sanctions regime.

Economic Overview

¶12. (SBU) The Turkish economy has recovered strongly from the 2001 financial crisis, completing five years of GDP growth averaging over 7% -- the highest rate of any OECD country. In dollar terms, per capita GDP doubled to \$5,500 over the past five years. For the first time since the early 1970's, inflation has been in single digits for three years. Turkey has reduced its vulnerability to financial problems, with the net public sector debt to GDP ratio falling from 90% in 2001

to 45% in 2006. Turkey achieved this through its IMF-sponsored economic program, including a 6.5% primary surplus target for the public sector, and orthodox, pro-investor, pro-market policies. Foreign investment has grown tenfold, to over \$20 billion last year and approaching \$25 billion this year. Turkey remains vulnerable to global market trends because of its large current account deficit (8% of GDP in 2006), the public sector's continued reliance on foreign portfolio investors rolling over mostly short-term debt, heavy private sector borrowing in foreign currencies, and risks of political or regional instability.

¶13. (SBU) With two-way bilateral trade around \$10 billion, roughly in balance between exports and imports, the U.S. is an important trading partner for Turkey. Half of Turkey's trade is with the EU, and Turkish trade with the Middle East, African and former Soviet Union countries is growing.

Political Overview

¶14. (C) Erdogan's Government: Since the July parliamentary election, when the ruling Justice and Development Party (AKP) won 47.7% of the vote, PM Erdogan's new government has been event-driven. First came a contentious presidential election which installed Abdullah Gul in Cankaya. Then the AKP launched an ambitious and controversial effort to revise the 1982 military-written constitution. After Ramadan, the House Foreign Affairs Committee voted out the Armenian genocide resolution, inflaming already high anti-American sentiment in Turkey. The spate of vicious PKK attacks ratcheted up pressure on the GOT to reject USG calls for restraint in striking PKK forces in northern Iraq. In the aftermath of two bloody ambushes, Erdogan brought a cross-border operation (CBO) authorization motion before parliament; he managed his party with determination, having learned his lessons from March 1, 2003. But the onus, especially after a third large attack on October 21, remains squarely on his shoulders.

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